

California State Teachers' Board Supports Corporate Governance Legislation

Bills Ensure Shareholder Democracy and Performance-based Executive Compensation

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Sacramento, CA – The Teachers' Retirement Board will sponsor State Senate Bill 1207 (Alarcon) and officially support the provisions in Congressional Bill H.R. 4291 (Frank). Senate Bill 1207 bolsters corporate governance at the board level by strengthening shareholders voting rights in publicly-traded corporations based in California. H.R. 4291 would require company disclosure of executive compensation plans in its annual reports and proxy statements. This bill would require a separate vote for general equity compensation plans and so-called Change-in-control severance agreements.

"We have been working for decades to improve transparency at the board level and have fought tirelessly to make our voice as shareholders heard," said Jack Ehnes, CalSTRS chief executive officer. "While we have made great strides in engaging companies directly on these issues, these bills lend a strong and consistent legal framework."

The board's position on the legislation will provide CalSTRS' staff with direction for federal engagement - in both the regulatory and legislative spheres.

Under the current default system, corporate directors are generally nominated by a company's board of directors and elected by shareholders by a plurality of votes. This plurality voting standard allows corporate directors to be elected by the vote of a single share, unless, in rare cases, they are opposed by a dissident candidate who receives more votes.

State Senate Bill 1207 sets as a default policy that uncontested nominees to the board of directors of a California-registered public company must receive a majority of votes from the shareholders represented and voting in order to be elected. Shareholders would have the ability to vote against a nominee and nominees would be elected to the corporate board only if they receive a majority of the votes. The bill is permissive and would allow companies to adopt plurality voting standard if they chose to do so. This legislation aims to put the ultimate power over the election in the hands of the shareholders, and helps California corporations set the standard of best practices in voting.

H.R. 4291 would require full disclosure of a company's compensation plan for principal executive officers in their annual report and proxy statements. The Frank bill would also require separate shareholder approval for any compensation plan, including "golden parachute" packages.

Additionally, H.R. 4291 provides shareholders the protection of a clawback policy. The clawback provision would require companies to adopt policies in which all principal executives return compensation to corporations. The clawback policy would also apply to compensation for performance that does not meet stated measures, compensation as a result of fraud and unearned performance-based compensation as a result of restatement.

With a \$142 billion investment portfolio, the California State Teachers' Retirement System is the second-largest public pension fund in the United States. It provides retirement, disability and survivor benefits to California's 776,000 public school educators from kindergarten through community college.